

October 7, 2003

Honorable Mayor and Members
of the City Council
City of Dearborn Heights
6045 Fenton
Dearborn Heights, MI 48127

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Dearborn Heights, Michigan for the year ended June 30, 2003. In addition to the audit report, we offer the following comments for your consideration.

STATE REVENUE SHARING

The City has and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounts for over 20% of the City's total Corporate Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected.

Currently, the State's 2003/2004 fiscal year budget includes another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This budget includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

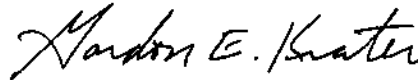
State shared revenue originally budgeted to be received by the City during the State's 2001 year end was approximately \$8.2 million, while the City's currently budgeted to receive approximately \$6.5 million during the State's 2004 year end. This reduction of approximately \$1.7 million represents an overall decrease in budgeted funding of state shared revenue of approximately 21% over the period 2001 through 2004.

We will continue to update the City as developments occur.

We would like to thank the City staff again this year for their preparedness, cooperation, and assistance they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

PLANTE & MORAN, PLLC



Gordon E. Krater



Blake M. Roe

STATE TO FUND PERSONAL PROPERTY TAX AUDITS

The State's fiscal year 2003/2004 General Government budget approved by the Legislature and the Governor contains an additional appropriation (\$7 million) for personal property tax audits. Given the decline in state shared revenue and the limitations placed on the growth in property tax revenues this may be a program that the City should consider to monitor closely. The Michigan Department of Treasury is responsible for developing the guidelines of the program.

GASB 34 – New Reporting Model

We would like to commend the City on its efforts related to implementing the reporting requirements for GASB 34. This pronouncement is by far the most comprehensive reporting change to take effect for governmental entities in recent history. The City's successful implementation required an effort and a commitment that was effectively and efficiently addressed.

INTERNAL CONTROL ITEMS

During our testing the following items were noted related to the City's accounting and internal control systems and may require attention, including the following:

Water and Sewer:

- Reconciliation of the water and sewer accounts receivable sub ledger to the general ledger system is currently completed on a quarterly basis. We would suggest that this reconciliation be completed monthly in order to detect potential errors or problems with the billing system or general ledger in a timely manner. In addition, we would suggest a quarterly reconciliation of water units purchased from the City of Detroit and units sold to customer.
- Currently only significant manual adjustments to the water and sewer billing accounts receivable sub ledger are reviewed by management. We would suggest that someone outside of the water department functions review a detailed listing of manual adjustments on a monthly basis and that review should be evidenced by signoff on the Adjustments Report.

Cash:

- The current official council resolution documenting wire transfer procedures states that the Treasurer has authority to implement internal controls related to wire transfers. There are currently controls in place. We would suggest that the internal control procedures related to these types of transactions be formalized in writing.
- Currently a cash register is not in use at the Young Recreation Center. Given the volume of transactions we would encourage the City to explore the possibility of utilizing a cash register.
- While reviewing a sample of cashed checks included in a monthly bank statement, we noted that several checks had been cashed by the bank without being endorsed. We would encourage the City to follow up with the bank on expected procedures related to the cashing of checks written by the City.